

Updating payments for providers in the traditional Medicare program

ISSUE: What evidence should MedPAC consider when making recommendations for updating payments to providers in the traditional Medicare program? Conceptually, policymakers should consider evidence about whether the base payment rate is appropriate and whether payments for services account for changes in the unit cost of providing care expected in the forthcoming year. Unfortunately, it is difficult to reliably forecast some of the factors that will influence providers' costs in the forthcoming year. Certain policymakers and provider groups have suggested that previous update recommendations made by MedPAC relied on several measures that were imprecise and unreliable.

KEY POINTS: Two important changes in how the Commission makes update recommendations may enhance the credibility of the Commission's recommendations and improve the uniformity of the Commission's deliberations between different provider groups. First, staff propose that Commissioners explicitly consider measures, such as margins, when assessing the appropriateness of the base payment rate when making payment update recommendations. The Commission's implicit use of these measures when making payment recommendations in previous years has led to confusion and misunderstanding by policymakers and other interested groups.

Second, staff propose that the Commission anchor its analysis of factors affecting providers' costs in the forthcoming year around the estimate of price inflation for each provider group. The estimate of price inflation is probably the most important cost-influencing factor and is the only reliable measure that the Commission has when trying to assess factors that affect providers' costs in the forthcoming year. Measures that estimate changes in providers' costs in the forthcoming year due to medical advances, one-time factors, and productivity increases cannot be readily and reliably calculated, thereby making them very imprecise.

Finally, staff also propose other ways to improve the approach used by MedPAC and Medicare to updating payments: 1) measuring changes in labor costs for institutional providers based on medical wage increases only, 2) measuring the allowance for scientific and technological advances only when sufficient and credible evidence suggests that one or more scientific advances for a specific provider group is playing an unusual large role in increasing costs, and 3) continuing our policy of offsetting the costs of new medical technologies with productivity gains made by institutional providers

ACTION: Commissioners should discuss the issues raised in this paper; such discussion is critical in how staff will frame the 2003 update analyses for inpatient hospital services, outpatient hospital services, physician services, skilled nursing facility services, home health services, and outpatient dialysis services. Staff will present analyses for updating payments for each provider type during the December 2001 and January 2002 meetings.

STAFF CONTACT: Nancy Ray (202-653-2638)